

## Message Text

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ACTION EB-07

INFO OCT-01 ISO-00 AF-06 ARA-06 EA-06 EUR-12 NEA-09

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

FEAE-00 FPC-01 H-02 INR-07 INT-05 L-02 NSAE-00 NSC-05

OMB-01 PM-03 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00

FRB-03 PA-01 PRS-01 USIA-06 /121 W

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R 301003Z APR 75

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 2876

INFO AMEMBASSY ABU DHABI

USINT BAGHDAD

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 1 OF 2 KUWAIT 1863

E.O. 11652: GDS

TAGS: ENGR, KU

SUBJECT: GULF/BP NEGOTIATIONS WITH KUWAIT

REF: A. KUWAIT 1862 B. KUWAIT 1747 C. KUWAIT 1427

SUMMARY: DURING PAST SEVERAL DAYS GULF/BP REPS AGAIN MET WITH  
GOK OFFICIALS WITH VIEW TO REACHING AGREEMENT ON SALE OF TWO COM-  
PANIES' REMAINING ASSETS IN KUWAIT OIL COMPANY. NEGOTIATIONS HAVE  
AGAIN REASHED IMPASSE, WITH FURTHER TALKS TENTATIVELY SCHEDULED  
FOR LATE MAY. GULF POSITION APPEARS TO HAVE HARDENED, WHILE BP  
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NOW INCLINED TO BE MORE OPTIMISTIC REGARDING POSSIBLE EVEN-



TUAL AGREED SETTLEMENT. GOK MINISTER OF OIL PROVIDES AMBASSADOR WITH HIS VIEW NEGOTIATIONS, TOGETHER WITH COMMENTS RE BREAKDOWN PREPCON TALKS AND FUTURE KUWAITI OIL PRODUCTION LEVELS (REPORTED SEPTEL). END SUMMARY

1. AMBASSADOR AND DCM MET MORNING APRIL 28 WITH KUWAIT OIL MINISTER KAZEMI. FOLLOWING DISCUSSION PREPCON AND FUTURE KUWAIT OIL PRODUCTION LEVELS, KAZEMI SAID HE HAD JUST COMPLETED THIRD ROUND NEGOTIATIONS WITH GULF:BP ON NATIONALIZATION THEIR REMAINING INTEREST (40 PERCENT) IN KUWAIT OIL COMPANY (KOC). GOK HAD OFFERED GULF/BP NET BOOK VALUE COMPENSATION IN AMOUNT APPROXIMATELY 50 MILLION DOLLARS (SPLIT BETWEEN TWO COMPANIES) AND SERVICE CONTRACT ON COMMERCIAL TERMS WHICH WOULD RESULT IN THEIR CONTINUED LONG-TERM PRESENCE IN KUWAIT. GOK ALSO HAD OFFERED DISCOUNT OF 9 CENTS PER BARREL FOR TOTAL LIFTINGS UP TO ONE MILLION BARRELS PER DAY. ADDITIONAL QUANTITIES WOULD BE MADE AVAILABLE IF REQUIRED FOR TWO COMPANIES INTERNAL OPERATIONS. UNFORTUNATELY, COMPANIES HAD DEMANDED GREATER DISCOUNT WHICH GOK UNPREPARED CONCEDE.

2. KAZEMI SAID COMPANIES SEEM TO HAVE NO TRUE APPRECIATION INTERNAL POLITICAL PROBLEMS NATIONALIZATION ISSUE HAS CREATED IN KUWAIT. BOTH GULF AND BP WISH TO TREAT SUBJECT STRICTLY IN COMMERCIAL TERMS AND ARE UNWILLING DISPLAY FLEXIBILITY KUWAITI POLITICAL SITUATION REQUIRES. UNDER RIGHT CIRCUMSTANCES GOK WILLING TO OFFER DISCOUNT UP TO 15 CENTS PER BARREL. (HE UNDOUBTEDLY DID NOT MAKE THIS STATEMENT WITHOUT FULL APPRECIATION THAT I WOULD PASS IT ON TO GULF/BP WHOSE REPS WERE STILL IN KUWAIT).

3. ACCORDING KAZEMI, GOK ANXIOUS TO SIGN WITH GULF/BP AT EARLIEST POSSIBLE TIME SINCE GOVERNMENT BELIEVES IF NATIONALIZATION NOT COMPLETED SOON SUBJECT WILL BECOME MAJOR ISSUE IN NATIONAL ASSEMBLY WITH UNHAPPY RESULTS FOR BOTH GOK AND COMPANIES. FACTIONS WITHIN NATIONAL ASSEMBLY WERE SEEKING IMMEDIATE NATIONALIZATION WITHOUT COMPENSATION. EARLY SETTLEMENT BY GULF/BP WOULD BENEFIT ALL. GOK IS WILLING TO ENTER INTO AGREEMENT TO PROVIDE OIL AT DISCOUNT FOR A PERIOD OF 5-10 YEARS. HE PLANNED TO MEET WITH COMPANIES' REPS IN EVENING SESSION TO SEE WHETHER FURTHER PROGRESS COULD BE MADE.

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4. AMBASSADOR SUBSEQUENTLY VISITED BY PETE RALSON, EXECUTIVE VP GULF, WHO CONFIRMED NEGOTIATIONS GOING POORLY. GULF AND BP (LATTER REPRESENTED BY MIDDLE EAST COORDINATOR MARSON-SMITH) HAD TOLD KAZEMI GOK SETTLEMENT OFFER NOT ACCEPTABLE TO COMPANIES. AMBASSADOR ADVISED RALSTON OF SUBSTANCE HIS CONVERSATION WITH KAZEMI EARLIER IN DAY, INCLUDING SUGGESTION GOK COULD AGREE TO 15 CENT PER BARREL DISCOUNT. RALSTON EXPRESSED APPRECIATION FOR INFORMATION RECEIVED, BUT INDICATED BEST TERMS OUTLINED



BY KAZEMI WOULD, IN HIS JUDGMENT, REMAIN UNACCEPTABLE TO GULF AND BP MANAGEMENT.

5. HE DESCRIBED CURRENT SITUATION AS FOLLOWS: A) GOK HAD NOT RESPONDED IN WRITING TO GULF/BP LETTER OF MARCH 31. ONLY CONCESSIONS OFFERED HAD BEEN PAYMENT FOR EXISTING ASSETS AT NET BOOK VALUE AND A 15-DAY EXTENSION OF CREDIT BEYOND THAT OFFERED OTHER COMMERCIAL BUYERS. NO MENTION HAD BEEN MADE OF SUGGESTED FIVE PERCENT DISCOUNT. B) NINE, OR EVEN FIFTEEN CENTS PER BARREL DISCOUNT PROPOSED BY KAZEMI, DID NOT COME CLOSE TO COMPENSATING TWO COMPANIES FOR "COMMERCIAL LOSS" WHICH WOULD RESULT FROM THEIR ACCEPTING GOK OFFER. TWO COMPANIES FELT CURRENT VALUE OF 60/40 AGREEMENT REACHED WITH GOK IN JANUARY 1974 WAS APPROXIMATELY \$400 MILLION EACH. (THEIR ESTIMATE OF AMOUNT WHICH WOULD HAVE ACCRUED TO COMPANIES THROUGH 1979 WHEN AGREEMENT WAS TO TERMINATE). ACCORDING TO RALSTON, GOK UNWILLING TO REALLY ACCEPT COMPANIES' SUGGESTION EXISTING AGREEMENT HAS COMMERCIAL VALUE. C) IN GULF'S VIEW, MINIMUM COMPENSATION ACCEPTABLE TO IT FOR LOSS THIS VALUABLE COMMERCIAL ASSET (EXISTING AGREEMENT) WAS A DISCOUNT OF FIFTY CENTS PER BARREL ON LIFTINGS OF 500,000 B/D THROUGH 1979. COMPANIES WOULD PREFER A LARGE CASH SETTLEMENT NOW IN LIEU OF ABOVE DISCOUNT. D) GULF AND BP RAPIDLY COMING TO CONCLUSION TWO COMPANIES SHOULD ATTEMPT TO STALL FURTHER TALKS WITH GOK, HOPEFULLY, UNTIL SAG/ARAMCO AGREEMENT CONSUMMATED. THEY RECOGNIZED RISK EXISTING GOK OR NATIONAL ASSEMBLY MIGHT NATIONALIZE THEIR INTEREST IN KOC WITHOUT COMPENSATION. HOWEVER, IT WAS THEIR JUDGMENT CRITICISM BY INFLUENTIAL KUWAITI ELEMENTS OF GOK DECISION TO NATIONALIZE KNPC COULD HELP DIVERT NATIONAL ASSEMBLY ATTENTION AWAY FROM KOC TAKEOVER. FURTHER, POWERFUL CHAIRMAN LOCAL CHAMBER OF COMMERCE AND KUWAIT OIL TANKER COMPANY, ABDUL-AZIZ AL-SAGAR, WAS ANXIOUS THAT GULF/BP CONTINUE TO CHARTER HIS VESSELS. HE COULD BE RELIED ON TO URGE CAUTION IN BOTH GOVERNMENT AND PARLIAMENTARY CIRCLES. FINALLY, CONFIDENTIAL

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SCHEDULED JUNE OPEC MEETING WOULD INCREASINGLY OCCUPY TIME OF GOK OIL OFFICIALS AND GULF HAD INTRODUCED NEW ELEMENTS IN LOCAL TALKS BY NOTING MOBIL HAD FORMALLY ADVISED US SECURITIES & EXCHANGE COMMISSION THAT ARAMCO WOULD CONTINUE TO OWN REFINERY OPERATIONS IN SAUDI ARABIA DESPITE ANTICIPATED SAG TAKEOVER OTHER ASSETS OF THAT COMPANY. GULF/BP WOULD CONTEST GOK NATIONALIZATION OF REFINERY OPERATIONS, IF THIS WAS NOT TO BE DONE IN SAUDI ARABIA. E) ACCORDING RALSTON, GULF/BP ACCEPTANCE NOW OF KOC TERMS COULD PREJUDICE MUCH MORE FAVORABLE ARRANGEMENTS RECENTLY REACHED BY GULF WITH NIGERIANS AND BP IN ABU DHABI. CONTRARY TO GULF'S EARLIER VIEW THAT SETTLEMENT WITH GOK, EVEN ON STIFF TERMS, WAS IMPORTANT FOR COMPANY'S CONTINUED VIABILITY, THIS NO LONGER WAS CASE. GULF, IN HIS JUDGMENT, COULD BUY OIL ON COMMERCIAL TERMS IF NECESSARY. IT SHOULD NOT "GIVE AWAY" ITS REMAINING VALUABLE ASSETS IN KUWAIT. IF GOK PERSISTS



IN OFFERING UNACCEPTABLE COMPENSATION, GULF AND BP BOARD CHAIRMAN SHOULD COME TO KUWAIT TO MAKE FINAL EFFORT. HE DID NOT DISMISS POSSIBILITY GULF MIGHT ASK USG TO WEIGH IN WITH GOK AT SOME POINT.

6. RALSTON SAID HE HAD TO LEAVE KUWAIT EARLY MORNING OF APRIL 29, BUT THAT BP REP MARSON-SMITH WOULD PROVIDE RUNDOWN ON PLANNED EVENING SESSION.

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ACTION EB-07

INFO OCT-01 ISO-00 AF-06 ARA-06 EA-06 EUR-12 NEA-09

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R 301003Z APR 75

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 2877

INFO AMEMBASSY ABU DHABI

USINT BAGHDAD

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 2 OF 2 KUWAIT 1863

7. IN MEETING WITH DCM MORNING APRIL 29, MARSON-SMITH SAID EVENING SESSION SAW SOME PROGRESS BUT THAT POSSIBLE FINAL AGREEMENT STILL LONG WAY OFF. SIGNIFICANT DEVELOPMENTS HAD BEEN: A) GULF/BP



AGREEMENT TO SPEED PACE OF NEGOTIATIONS LEADING TO POSSIBLE SIGNATURE OF SERVICE CONTRACT (WITH CAVEAT BY BP THAT IT HAD "RIGHT" TO PULL ITS 130 CONTRACT-EMPLOYEES OUT OF KOC SHOULD AMICABLE SETTLEMENT PROVE IMPOSSIBLE). B) OFFER BY GULF/BP THAT THEY WOULD CONTINUE TO USE KUWAIT OIL TANKER COMPANY TANKERS IF AGREEMENT REACHED; C) OFFER BY GULF/BP TO CONTINUE PROCESSING CRUDE AT KOC'S "UNECONOMIC" LOCAL REFINERY FOLLOWING SETTLEMENT; E) GOK OFFER OF THIRTY-DAY CREDIT ABOVE THAT OFFERED  
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OTHER COMPANIES (FOR TOTAL NINETY) FOR UP TO ONE MILLION B/D FOR TWO COMPANIES THROUGH 1979. (KAZEMI CLAIMS THIS WORTH 21 CENTS/BARREL WHILE COMPANIES ALLEGE HAS VALUE OF ONLY 8 CENTS).

8. MARSON-SMITH SAID ABOVE CONSTITUTED SOME IMPROVEMENT GOK ATTITUDE TOWARDS ACCOMMODATION WITH COMPANIES AND THAT IT EVENTUALLY MAY BE POSSIBLE TO REACH A SETTLEMENT. DISCUSSIONS HAD BROKEN UP WITH TENTATIVE AGREEMENT TWO PARTIES TO MEET AGAIN, POSSIBLY IN PARIS, IN LATE MAY.

9. COMMENT: IN MEETINGS WITH EMBASSY OFFICERS IT APPEARS GULF AND BP HAVE MOVED TOWARDS A REVERSAL OF THEIR TRADITIONAL ATTITUDES TOWARDS REACHING A SETTLEMENT WITH GOK. IF RALSTON'S VIEWS ARE SHARED BY HIS SUPERIORS, GULF MAY BECOME THE "HARDLINER" WITH BP MORE WILLING TO ACCEPT A SETTLEMENT. MARSON-SMITH APPEARS TO BELIEVE GLOBAL SITUATION INDUSTRY NOW FAVORS COMPANIES, BUT THAT THIS SITUATION WILL NOT LAST LONGER THAN BEGINNING OF WINTER SEASON. ON OTHER HAND, RALSTON SEEMS TO THINK COMPANIES WILL RETAIN SIGNIFICANT LEVERAGE FOR AT LEAST SEVERAL MORE YEARS. BOTH AGREE SETTLEMENT WITH KUWAIT MUST NOT BE MORE FAVORABLE THAN TERMS NEGOTIATED BY TWO COMPANIES IN OTHER OPEC COUNTRIES.  
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## Message Attributes

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**Capture Date:** 01 JAN 1994  
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**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM INDUSTRY, NEGOTIATIONS  
**Control Number:** n/a  
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**Draft Date:** 30 APR 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** buchandr  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
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**Previous Handling Restrictions:** n/a  
**Reference:** 75 KUWAIT 1862, 75 KUWAIT 1747, 75 KUWAIT 1427  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** buchandr  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 17 APR 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <17 APR 2003 by BoyleJA>; APPROVED <06 OCT 2003 by buchandr>; APPROVED <06 OCT 2003 by buchandr>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
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**Status:** NATIVE  
**Subject:** GULF/BP NEGOTIATIONS WITH KUWAIT  
**TAGS:** ENRG, KU, GULF, BP, (KAZEMI, ABD AL-MUTTALEB)  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006